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REPORT TO THE CONGRESS

Improvements Needed In Policy For Establishing Regulatory Fees

B-118638

District of Columbia Government

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

093443

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JULY 12, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-118638

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the improvements needed in the
District of Columbia's policy for establishing regulatory fees.

Our review was made pursuant to the Budget and Ac-
counting Act, 1921 (31 U.S.C. 53), and the Accounting and Au-
diting Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director,
Office of Management and Budget, and to the Commissioner
of the District of Columbia.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

ECD	Department of Economic Development, District of Columbia Government
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

The District of Columbia Government is responsible for regulating the conduct of a variety of business, professional, occupational, and other activities requiring governmental supervision in the public interest. The District issues licenses or otherwise authorizes the conduct of such activities, establishes standards, and makes inspections to insure that the public interest is protected. The District is required by law to charge fees for these regulatory activities.

We examined the District's policies, procedures, and practices for establishing regulatory fees. Our review was made to determine whether the policies provide management with adequate guidance pertaining to the recovery of the costs of regulatory activities. We did not review, in depth, the District's determinations of the costs of the activities. As noted on page 8, the District's internal audit office had reviewed these determinations and found that they were made in accordance with the District's prescribed procedures.

Our review covered the fees established by the District in connection with activities of the Department of Economic Development (ECD).¹ ECD is responsible for licensing business, professional, occupational, and other activities and for issuing permits and certificates of occupancy which evidence compliance with the District's building and housing codes.

With relatively few exceptions, the District has the authority to establish the fees charged for ECD activities.

¹In March 1969 the Commissioner of the District of Columbia established ECD and assigned to it the functions of the Department of Licenses and Inspections and the Department of Occupations and Professions which were heretofore responsible for conducting the activities discussed in this report. Therefore references to ECD prior to March 1969 pertain to the predecessor departments.

The exceptions, for which the fees are established by statute, include licenses for businesses, such as employment agencies, credit unions, and pawnbrokers, licenses for dogs; and permits for outdoor signs and public auctions. District revenues from regulatory fees in fiscal year 1971 totaled about \$2.9 million, of which about \$100,000 was derived from fees established by statute and the remainder from fees established by the District. Appendix II shows the revenues reported by the District for ECD regulatory activities in fiscal years 1969, 1970, and 1971.

Legislation authorizing the District to establish fees for licenses, permits, and certificates of occupancy provides for the establishment of fees at levels generally sufficient to recover the costs of issuance, inspection, supervision, or other regulatory activities. The applicable provisions of the District of Columbia Code follow.

Licenses

Business (47 D.C. Code 2344):

"The Commissioners of the District of Columbia are authorized and empowered *** to require a license of other businesses or callings not listed in this chapter and which, in their judgment, require inspection, supervision, or regulation *** and to fix the license fee therefor in such amount as, in their judgment, will be commensurate with the cost to the District of Columbia of such inspection, supervision, or regulation ***." (This section also authorizes the Commissioners to revise license fees established by an act of 1932, 47 D.C. Code 2301.)

Occupations and professions (1 D.C. Code 253):

"The Commissioners may after public hearing increase or decrease the fees *** to such amounts as may, in the judgment of the Commissioners, be reasonably necessary to defray the approximate cost of administering each of said sections." (The sections referred to give the Commissioners

authority to license the various occupations and professions.)

Permits and certificates (5 D.C. Code 429):

"The Commissioners of the District of Columbia are hereby authorized and directed, from time to time, to prescribe a schedule of fees to be paid for permits, certificates, and transcripts of records issued by *** the District of Columbia, for the erection, alteration, repair, or removal of buildings and their appurtenances, and for the location of certain establishments for which permits may be required under the building regulations of the District of Columbia, said fees to cover the cost and expense of the issuance of said permits and certificates and of the inspection of the work done under said permits ***."

In August 1967 the President of the United States abolished the three-member Board of Commissioners of the District of Columbia Government and established a governmental organization consisting of a single Commissioner and a nine-member city council. Pursuant to this reorganization, authority vested by law in the former Board of Commissioners to establish fees for licenses, permits, and certificates of occupancy was assigned, for the most part, to the newly established city council. The authority to establish certain fees, primarily those for building and sign permits and certificates of occupancy, was assigned to the Commissioner.

District policy, in effect since 1957, requires ECD to biennially (1) make cost studies for all license, permit, and certificate activities, (2) recommend to the Commissioner or the city council any necessary changes in the applicable fees, and (3) submit such recommendations in sufficient time to adequately notify the public before the effective date of changes in the fees.

The District most recently revised its fees in December 1970, when permit and certificate of occupancy fees were increased by 32 percent. Before this revision, the fees had been revised only once in the prior 14 years. Permit and

certificate fees were increased 15 percent in January 1965, and license fees were increased 15 percent in February 1966. These prior increases were based on pay raises made during the preceding 3 years for District employees.

In a report to the Congress on February 6, 1962 (B-118638), we pointed out that the District needed a system for providing the cost data essential for establishing regulatory fees based on the costs of the related services. To provide such a system, the District in 1967 established accounting procedures for accumulating ECD's costs and other District agencies' costs related to the issuance of licenses, permits, and certificates by ECD.

CHAPTER 2

IMPROVEMENTS NEEDED IN POLICY

FOR ESTABLISHMENT OF REGULATORY FEES

The District has not developed adequate policies for the establishment of regulatory fees. In reaching its 1970 decision to increase by 32 percent the fees for permits and certificates of occupancy, the District, in our opinion, did not give appropriate consideration to ECD cost data. The data showed that fee increases averaging 200 percent were necessary to recover the costs of issuance, inspection, and other supervisory services in connection with permits and certificates.

When considering ECD's recommendation to increase fees for permits and certificates of occupancy, District officials were uncertain about how much the public benefits from regulatory activities and how much the public should help to finance the activities. Officials also were uncertain about the extent to which direct and indirect costs should be considered in establishing such fees. We believe that these matters should be provided for in developing a policy on the establishment of regulatory fees.

LACK OF AN ADEQUATE POLICY FOR ESTABLISHMENT OF FEES

The following discussion of the District's 1970 revision of the fees for permits and certificates of occupancy shows the need for the District to develop improved policies for establishing regulatory fees.

In October 1968 ECD submitted a recommendation to the Commissioner that fees for permits and certificates of occupancy be increased by about 200 percent, ranging from about 100 to 600 percent for individual fees. This recommendation was based on an ECD study of the costs incurred in fiscal year 1968 to administer each of the respective regulatory activities and on the costs of an anticipated pay raise in fiscal year 1969. ECD did not recommend any increases in license fees because its study showed that the revenues from

license fees were sufficient to recover the cost of the licensing activities.

ECD's study showed that annual permit and certificate costs exceeded the revenues by about \$2.4 million. Its recommended percentage increases in permit and certificate fees and the study data on which they were based are shown below.

<u>Category</u>	<u>Average unit cost</u>	<u>Average unit revenue</u>	<u>Recommended percentage increase</u>
Permits			
Smoke and boiler	\$ 21.67	\$ 3.73	481
Plumbing and refrigeration	52.24	10.88	382
Electrical	22.94	11.72	96
Elevator	70.52	22.75	212
Construction	129.14	51.19	152
Public space	22.46	6.92	225
Certificates of occupancy	82.70	11.28	633

In June 1969, 8 months after ECD submitted its recommendation, the Commissioner's office requested the District's internal audit staff to review the recommendation. The internal audit staff reported in July 1969 that ECD's revised fee schedule had been developed in accordance with applicable procedures but that certain modifications had been made to achieve a more equitable cost distribution. In August 1969 ECD resubmitted its recommendation to the Commissioner that fees for permits and certificates be increased basically by the same percentages as those contained in its October 1968 recommendation.

On April 14, 1970, 8 months after ECD resubmitted its recommendation, the recommendation was discussed by officials of the Commissioner's office and ECD. Officials of both offices had serious reservations about the large fee increases needed to recover the costs of the related services. They were uncertain about how much the public benefits from regulatory activities and how such benefits should be considered in establishing fees. They also were uncertain

about the extent to which direct and indirect expenses should be considered in establishing fees for regulatory activities.

Apparently, because of the reservations expressed, the Commissioner's office requested ECD to compute the percentage increase in its appropriation resulting from pay raises subsequent to fiscal 1967. On April 21, 1970, ECD submitted information to the Commissioner's office which showed this increase to be about 32 percent.

On June 1, 1970, the Commissioner's office requested the city council to consider increasing by 32 percent the fees for permits and certificates of occupancy. The Commissioner's office advised the council that approval of an increase of 32 percent in the fees, which are within the authority of the Commissioner to revise, would be granted concurrently with similar action by the council.

In November 1970, more than 2 years after ECD recommended an increase, the Commissioner and the city council approved a 32 percent increase in the fees. The increase was to be effective in December 1970. The District estimated that the revised fees would result in additional revenues of \$300,000 annually.

In November 1971 ECD's Accounting and Budget Officer informed us that, because of a work backlog, a cost study of fees had not been made since its study of fiscal year 1968 costs and that the December 1970 increase in permit and certificate fees would, at best, offset the effects of inflation which have occurred since ECD's study of fiscal year 1968 costs. The officer stated also that the annual difference--about \$2.4 million--between revenues and costs for permits and certificates of occupancy, as shown by the ECD study, still existed.

Some comparisons of the fees recommended by ECD in October 1968 with the fees established by the District in 1970 follow.

A certificate of occupancy is required by the District for any property not used as a one-family dwelling. Such a certificate must be obtained whenever there is a change in

ownership or use of the property. Before issuing a certificate of occupancy, the District inspects the property to determine whether it meets prescribed building, plumbing, and electrical codes and fire regulations.

On the basis of its fiscal year 1968 study, ECD recommended in October 1968 that the fee for a certificate of occupancy be increased from \$12 to \$88, an increase of 633 percent. Because the District decided to increase fees for permits and certificates in December 1970 by only 32 percent, the fee for a certificate of occupancy was increased to \$16, substantially below the fee proposed by ECD. On the basis of the number of certificates issued in fiscal year 1971, we estimate that a fee of \$88 would have resulted in additional revenues of about \$265,000 in fiscal year 1971.

ECD also recommended increased permit fees for the installation of warm-air furnaces. The District's permit fees had been \$4 for furnaces with outputs not exceeding 100,000 B.t.u.s and \$6 for furnaces with outputs over 100,000 B.t.u.s.

ECD recommended that the fees of \$4 and \$6 be increased to \$23.25 and \$34.75, respectively; however, the District increased the fees in 1970 to \$5.25 and \$8, respectively. On the basis of the number of permits issued in fiscal year 1971, we estimate that the fees of \$23.25 and \$34.75 would have resulted in additional revenues of at least \$27,000 in fiscal year 1971.

CERTAIN EXPENSES NOT INCLUDED IN COST DATA

The District's accounting procedures, established in 1967, provide for ECD to accumulate by cost centers its direct costs (salaries, materials, and depreciation of equipment) for license, permit, and certificates of occupancy activities and to allocate to the cost centers its indirect costs (administrative, supervisory, and service activities) on the basis of such factors as labor hours or the ratio of indirect costs to total direct costs.

The procedures provide also for obtaining information from other District departments on costs incurred in connection with ECD licenses, permits, and certificates (for example, cost of inspections by the Fire Department to determine compliance with fire regulations) and for the addition of these costs to ECD's accumulated costs. The procedures provide further for the determination of unit costs for licenses, permits, and certificates by dividing the total costs for each category by the number of licenses, permits, or certificates issued.

The costs developed by ECD in accordance with the above procedures did not represent the District's full cost of the license, permit, and certificate activities, because the developed costs did not include the costs incurred for office space, utilities, transportation, or executive direction and general support for these activities. Executive direction and general support include such items as direction of city affairs by the Commissioner, city council, or other top-level officials; budgeting; personnel relations; and legal and accounting services.

An allocation of these costs to the ECD license, permit, and certificate activities would have increased the accumulated costs of these activities. For example, if the fiscal year 1970 operating expense allotment for executive direction and general support services had been allocated to the ECD activities on the basis of the ratio of ECD's budget to the total operating budget of the District for that year, the accumulated cost of license, permit, and certificate activities would have been increased by about \$100,000.

Cost data used in establishing fees, in our opinion, should include all costs incurred in carrying out regulatory activities and an appropriate share of the costs of executive direction and general support. This concept is incorporated in the Federal policy on establishment of fees for Government services set forth in Circular A-25 of the Office of Management and Budget.

CONCLUSION

The District has not developed an adequate policy for establishing regulatory fees. When considering the revision of permit and certificate fees, District officials were uncertain about how much the public benefits from regulatory activities and how much the public should help to finance the activities. Officials also were uncertain about the extent to which direct and indirect costs should be considered in establishing fees. These matters should be provided for in a District policy relating to the establishment of fees.

We noted that the Congress is considering legislation (S. 1338 and H R 9275) which would provide the District with the authority to revise certain regulatory fees now fixed by statute. This legislation provides for such fees to be periodically examined by the District. When appropriate, the fees would be increased or decreased to amounts (but not in excess of \$100 under H.R. 9275) the city council determined, after public hearing, to be reasonable. Consideration would be given to the public interest and to the approximate costs of administering each of the District's statutory duties related to the activities for which the fees are charged.

RECOMMENDATIONS TO THE COMMISSIONER OF THE DISTRICT OF COLUMBIA

We recommend that the Commissioner require the District to develop a policy for establishing fair and equitable regulatory fees that takes into consideration all direct and indirect costs applicable to the regulatory activities and the public interest served by the activities. We recommend also that the costs of the regulatory activities be reviewed periodically and that necessary adjustments be made in the fees.

AGENCY COMMENTS

In a letter dated May 11, 1972, the Commissioner informed us that he accepted our findings and concurred with our recommendations.

The Commissioner stated that he had directed his Special Assistant for Budget and Financial Management, with the assistance of the Director, Office of Planning and Management, to initiate the development of a defined policy for establishing fees relating to regulatory functions and activities of the District. The policy would be consonant with the full recovery, where authorized, of all direct and indirect costs associated with the issuance of specific types of permits, certificates, and licenses, consistent with the public interest. The policy would also provide the necessary mechanism for the periodic review and adjustment of the prevailing fee structure.



GOVERNMENT OF THE DISTRICT OF COLUMBIA
 EXECUTIVE OFFICE
 WASHINGTON D C 20004

WALTER E WASHINGTON
 MAYOR COMMISSIONER

MAY 11 1972

Mr. Willard L. Russ
 Assistant Director
 General Government Division
 U.S. General Accounting Office
 Room 213, District Building
 14th and E Streets, N.W.
 Washington, D C. 20004

Dear Mr. Russ:

I appreciate the opportunity to review a draft of the Comptroller General's proposed report titled "Need for a Definitive Policy for Establishing Regulatory Fees, District of Columbia Government," transmitted to me on January 10, 1972. Copies of this draft have been reviewed by the staffs of the Office of Budget and Financial Management, the Office of Planning and Management and the Department of Economic Development. As a result of these reviews, I accept the report's findings and concur with its recommendations.

I have directed my Special Assistant for Budget and Financial Management, with the assistance of the Director, Office of Planning and Management, to initiate the development of a defined policy for establishing regulatory functions and activities of the District, and in addition that it be consonant with the full recovery where authorized, of all costs, direct and indirect, associated with the issuance of specific types of permits, certificates and licenses, consistent with the public interest. This policy will also provide the necessary mechanism for the periodic review and adjustment of the prevailing fee structure.

I thank you for your continued assistance in increasing the effectiveness of the District Government.

Sincerely yours,

A handwritten signature in cursive script that reads "Walter Washington".

WALTER E. WASHINGTON
 MAYOR-COMMISSIONER

APPENDIX II

DISTRICT OF COLUMBIA GOVERNMENT
 DEPARTMENT OF ECONOMIC DEVELOPMENT
 REGULATORY FEE REVENUES

FISCAL YEARS 1969 THROUGH 1971

<u>Type of fee</u>	<u>Revenues</u>		
	<u>1969</u>	<u>1970</u>	<u>1971</u>
	—————(000 omitted)—————		
Licenses.			
Occupations and professions	\$ 638	\$ 641	\$ 640
Business	<u>1,213</u>	<u>1,178</u>	<u>1,116</u>
Total	<u>1,851</u>	<u>1,819</u>	<u>1,756</u>
Permits:			
Smoke and boiler	24	23	27
Plumbing and refrigeration	112	105	94
Electrical	194	174	172
Elevator	106	101	59
Construction	541	342	627
Public space	<u>92</u>	<u>90</u>	<u>98</u>
Total	<u>1,069</u>	<u>835</u>	<u>1,077</u>
Other:			
Certificates of occupancy	53	45	50
Dog licenses	70	67	45
Charitable Solicitation Act	<u>9</u>	<u>9</u>	<u>8</u>
Total	<u>132</u>	<u>121</u>	<u>103</u>
Total licenses, permits, and other	<u>\$3,052</u>	<u>\$2,775</u>	<u>\$2,936</u>

PRINCIPAL OFFICIALS OF THE
DISTRICT OF COLUMBIA GOVERNMENT
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
COMMISSIONER OF THE DISTRICT OF COLUMBIA: Walter E. Washington	Nov. 1967	Present
ASSISTANT TO THE COMMISSIONER OF THE DISTRICT OF COLUMBIA: Graham W. Watt	Jan. 1970	Present
Thomas W. Fletcher	Nov. 1967	Dec. 1969
DIRECTOR, OFFICE OF PLANNING AND MANAGEMENT: John Ingram	Aug. 1971	Present
DIRECTOR, OFFICE OF BUDGET AND FINANCIAL MANAGEMENT: Comer S. Copple	Apr. 1972	Present
DIRECTOR, DEPARTMENT OF ECONOMIC DEVELOPMENT: Julian R. Dugas	Mar. 1969	Present

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